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S E C R E T SECTION 01 OF 08 MANAGUA 000573

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TAGS: [PGOV](#) [EAID](#) [ECON](#) [PTER](#) [PREL](#) [NU](#)
SUBJECT: THE ORTEGA ADMINISTRATION AT 15 MONTHS: SLIPPING
DOWNHILL

REF: A. MANAGUA 520
[1](#)B. MANAGUA 500
[1](#)C. MANAGUA 443
[1](#)D. MANAGUA 340
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[1](#)J. 2007 MANAGUA 1730
[1](#)K. 2007 MANAGUA 964
[1](#)L. 2006 MANAGUA 2611

Classified By: Ambassador Paul A. Trivelli for reasons 1.4 b & d.

[1](#)1. (S/NF) Summary and Background: Fifteen months into his second administration, Ortega continues to skillfully use his political pact with former President and convicted felon, Arnoldo Aleman to keep pro-democracy forces divided, vulnerable to coercion, and unable to mount sustained opposition. Ortega continues to allow U.S. and other donor assistance programs to operate, though he regularly attacks the evils of "savage capitalist imperialism." Our cooperation with the Police and Military remains good, both for training and in fighting narcotics and other forms of trafficking--but Ortega continues his quest to bring both institutions under his direct control. Ortega's has strengthened ties with Iran and Venezuela, and become openly sympathetic to the FARC. Our access to the government has decreased dramatically, with even routine items requiring Ambassadorial intervention. Civil Society and the media are under attack. Elections on the Atlantic Coast remain suspended. Underlying the political and policy turmoil, Nicaragua's economic indicators are not encouraging. This message provides an assessment of some of the trends we observe from Ortega and his government after fifteen months. End Summary.

12. (SBU) In 2007, the Ortega Administration coasted on the achievements of the Bolanos government, but that ride is about to end. The government essentially adopted Bolanos' 2007 and 2008 budgets, and used them as the basis for negotiating a new Poverty Reduction and Growth Facility Agreement with the IMF. Foreign investment remained stable in 2007 thanks to commitments made during the Bolanos years. Exports are up this year by 21% over 2007 levels. In most other respects, however, the Ortega government is not faring well. Growth expectations have fallen while inflation expectations have risen. In 2007, inflation reached 17% and annualized inflation is running at 22% for 2008, the second highest rate in Latin America. The lack of a strong policy response to rising oil and food prices worries independent economists, some of whom suspect that hidden foreign assistance from Hugo Chavez has created excess liquidity. Minimum wages rose 30% in the last year, but still do not cover the soaring cost of food and transportation. To quell demand and keep prices down, the government removed import tariffs on basic food items through December 2008, made documenting export shipments more difficult, and instructed the state-owned grain storage company to intervene in local markets. So far in 2008, the Agricultural Ministry has failed to deliver needed seeds to farmers in time for planting, although it has become aware of the urgency need to do so. More radical measures related to food supply may be coming, as President Ortega has just concluded a regional

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"food sovereignty" summit in Managua on May 7. In other areas, line ministries continue to fall short of spending targets, leaving needed infrastructure and other capital projects on the drawing board and causing the construction sector to suffer. Tourism and power sectors, both key to national economic development plans, limp along as the result of government mismanagement. While the economic slowdown in the United States, Nicaragua's largest export market and source of investment, has attracted political rhetoric, the government has no clear policy response. The Central Bank has lowered its expectations for economic growth in 2008 to 3.8% from 4.5% in January, but most economists believe that the figure will be closer to 3.0%.

Manipulating Economics for Political Ends: CENIs

13. (C) In December 2006, we identified several key indicators (REF L) that would guide our assessment of how well Ortega was fulfilling his campaign promises to the Nicaraguan people, including adherence to fiscally responsible, sound macroeconomic, free market policies. Fifteen months later the results are disturbing. On April 15, the government failed to pay on a set of government bonds (CENIs) that it has issued to compensate healthy banks for absorbing the assets and liabilities of insolvent banks at the beginning of the decade (REF C) . The bond issue was originally politicized in 2006 by Arnoldo Aleman, but resurrected by President Ortega to investigate the leading opposition figure, Eduardo Montealegre, who is running for Managua Mayor against the FSLN candidate, former three-time world champion boxer, Alexis Arguello. Nonpayment on the bonds may damage Nicaragua's relationship with the IMF and other international financial institutions, and already caused credit rating agencies to put two Nicaraguan banks on a ratings watch. As a consequence, since April 15, the government has been unable sell public debt instruments--no one is buying. Nevertheless, key government officials are seemingly convinced that they can navigate this slippery slope to their political advantage, much as they did when they deployed Sandinista judges and government institutions to force ExxonMobil to buy Venezuelan oil.

(C) U.S. Citizen Property Claims) A meltdown in the works?

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14. (C) Another of the vital markers we identified in 2006 was government progress on resolving outstanding U.S. citizen property claims (REF L). Here again the trend is worrisome. As of May 1, 2008, the Ortega Administration had resolved just 12 Embassy-registered claims for the 2007-2008 waiver year; significantly fewer than the 86 resolved during the last full year of the Bolanos Administration. We have continued to press for the resolution of the remaining 657 U.S. citizen claims, which include some of the most difficult and complex. Our efforts have been frustrated by the decided lack of cooperation on the part of the government. The Property Superintendent limits her agency's contact with Embassy staff to just one meeting per month and no longer allows Embassy staff to accompany U.S. claimants to individual meetings with the government. The Attorney General requires that all communications on property be directed to him via Ambassadorial letter. In the meantime, the Attorney General has administratively dismissed 54 U.S. citizen claims; then categorized them as having been "resolved." He recently passed to us a list of an additional 88 claims that he dismissed because the claimants were somehow connected to the Somoza regime. If the situation

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fails to improve, we may need to consider implementation of Section 527 sanctions. While implementing Section 527 sanctions would conflict with the January 2007 Deputies Committee-approved strategy of "positive engagement" with the Ortega Administration, we fear that taking no action would undercut the credibility of Section 527 as a tool to pressure action on outstanding claims. For this reason, we suggest as third way, such as a letter from the Secretary putting the government on notice.

(C) Security Forces: Still Independent, for the time being
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15. (C/NF) The security forces continue to be a bright spot. The Nicaraguan Army and the Nicaraguan National Police (NNP) remain two of the few independent, apolitical forces in Nicaragua despite the Ortega Administration's clear goal of reverting both the NNP and the Nicaraguan Army back into completely subsidiary organs of the Sandinista Front, as they once were during the days of the Sandinista Revolution (REF G). The continued institutional independence and professionalism of the NNP and the Nicaraguan Army has been one of the few positive indicators remaining under Ortega's increasingly authoritarian regime and has been the foundation of our strongest remaining areas of cooperation with the current administration. However, Ortega's continued attacks against the NNP, in general, and against popular NNP Chief Aminta Granera, in particular, have taken their toll. Most notably, since Ortega's dismissal of several high-level NNP officials in March 2008 (REF F), Granera has shied away from the public spotlight and avoided even the appearance of acting against Ortega's interests. The NNP's failure to intervene in the violent protests that recently erupted in the RAAN have cost both the organization, and Granera herself, credibility in the eyes of the Nicaraguan public and is a clear indication of Ortega's success in his drive to reassert personal control over the organization (REF A). A recent spike in crime rates has further damaged the NNP's image, especially a worrisome increase in brazen, foreigner-targeted crimes. Granera's long term prospects as police chief are uncertain at best. If the FSLN does well in November's municipal elections, most observers of the NNP believe that Granera will retire and make way for her current second in command, Carlos Palacios. Palacios is an Ortega loyalist who has alleged, albeit unproven, ties to organized crime and corruption in Nicaragua. Despite this, we believe that he will still be a cooperative, if difficult, partner to work with on future law enforcement assistance efforts.

16. (S/NF) One of Ortega's first efforts in 2007 was an

attempt to bring the military under his direct control. After the National Assembly forced him to abandon two separate candidates for Defense Minister, he chose to leave the top two seats at Defense vacant and bestow the "rank of minister" on a weak, but personally loyal Secretary General with no relevant experience. The Ministry has since been purged of all professional-level technocrats, with all key positions now staffed by FSLN ideologues. The marginalization of the Defense Ministry has allowed the uniformed military to largely retain its professional and apolitical stance, but has left no civilian buffer between Ortega and Chief of Defense General Omar Halleslevens. Thus far, the popularity and sheer personality of Halleslevens, as well as the personal relationship between the General and the President, have prevented Ortega from asserting direct control. However, beginning last July, Ortega has used his speeches at all military events and venues as a platform to attack the U.S. and our "interventionist policies." On

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multiple occasions Ortega has singled out U.S. military personnel in attendance to receive his verbal lashings. Halleslevens has been careful to avoid public disputes with Ortega, but has also repeatedly and firmly asserted the military's apolitical stance and its obligation to defend the Constitution, not a particular political party. We have not observed the political interference in military promotions and assignments that we have witnessed with the National Police. In fact, most military observers believe that Halleslevens will complete his full term through 2010, though they predict Ortega will move to install a more malleable figure to replace him. This appears to be borne out by recent sensitive reporting.

(S) Ortega Foreign Policy: Petulant Teen or Axis of Evil Wannabe?

17. (S/NF) As expected, Ortega's foreign policy shifted substantially to the left after January 2007 (REF L). Despite Ortega's early and reassuring move to name moderate Sandinista Samuel Santos as foreign minister, over the last fifteen months Ortega's infatuation with Venezuela and Iran, and the promotion of the ardent U.S.-hater Miguel d'Escoto for UNGA president (REF B), would indicate that Ortega's guiding principle in foreign relations seems to be, "Will this annoy the U.S.?" Over time, Santos and the ministry have played an increasingly ceremonial role. Routine tasks normally be handled at the working-level require Ambassadorial advocacy and, despite Santos's assurances to the contrary, almost never seem to gain traction. Recently, we were advised that Ortega sought a meeting with Embassy TDY visitors. We found the Ministry had no knowledge of the meeting nor the means to obtain any details. We were only able to confirm the details after sending an email directly to First Lady Rosario Murillo. We agree with our diplomatic circuit colleagues that the Ministry has virtually ceased to function.

18. (S/NF) Chavez "Mini-Me": With respect to Venezuela, Ortega is a willing follower of Chavez who has replaced Castro as Ortega's mentor. Initially the relationship seemed largely a mutual admiration society with Chavez slow to send assistance; however, the ALBA alliance has finally begun to produce monetary benefit for Ortega and the FSLN. We have first-hand reports that GON officials receive suitcases full of cash from Venezuelan officials during official trips to Caracas. We also believe that Ortega's retreat last year from his demand that the Citizens Power Councils (CPCs) be publicly funded was due in part to the fact that the Venezuelan cash pipeline had come on-line. Multiple contacts have told us that Ortega uses Venezuelan oil cash to fund the CPCs and FSLN municipal election campaigns. Several unconfirmed reports indicate that Ortega will have as much as 500 million dollars at his disposal over the course of 2008.

¶9. (S/NF) Unrequited Love for Iran: Regarding Iran, Ortega had earnestly hoped to improve relations with Iran, which he views as Nicaragua's revolutionary soul mate, both having toppled authoritarian regimes in the same year, 1979. But Ortega's early flurry of activity that re-established formal relations and saw reciprocal state visits appears to be a case of unrequited love. Iran has sent multiple "private investment delegations" (REF E), but to date, Tehran has signed no investment deals nor responded to Ortega's request to forgive Nicaraguan sovereign debt held by Iran. In fact, Taiwan has been more forthcoming with direct assistance than Iran.

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¶10. (S/NF) "What the FARC?" Perhaps the most disturbing recent development in Ortega's foreign policy relates to his increasingly public support for the FARC. Ortega and the FSLN have a long-standing, clandestine relationship with Manuel Mirulanda and the FARC, but which publicly had seemed dormant until five months ago when Ortega initiated saber-rattling against Colombia over the San Andres archipelago during an ALBA meeting in Caracas. Tensions reached a peak in March when Ortega, at the behest of Chavez, broke diplomatic relations with Colombia, following its strike into Ecuador against FARC leader Raul Reyes, only to restore them a day later after a tempestuous Rio Group meeting. Since that point, Ortega has come perilously close to declaring open support for the FARC. In late April, Ortega appeared at the airport to greet Lucia Morett, a Mexican student and alleged FARC supporter who survived the March attack. Media reports persist that Ortega offered asylum and citizenship to Morett. The Foreign Ministry's reply to our direct questions on the topic was "nothing was requested, nothing was offered," insisting that media usage of the terms "asylum" and "refugee" are incorrect. Sensitive reporting indicates that recently the Government of Ecuador rebuffed Ortega's request, through intermediaries, that Quito send two additional Colombian survivors to Managua.

(C) The Opposition and Municipal Elections: Quixotic Errand?

¶11. (C) The most important event on Nicaragua's political horizon is the November municipal election. Given Ortega's unpopularity, the current economic decline, and several political factors, one would expect Ortega opponents to hold excellent odds at the ballot box. Even so, opposition parties have fumbled about without setting a clear direction. Confusion reigns in the Liberal camp. The Supreme Electoral Council (CSE) decision in February to remove Eduardo Montealegre as leader of the Nicaraguan Liberal Alliance (ALN) party -- forcing him to re-activate his Vamos Con Eduardo (VCE) political movement -- followed quickly by Eduardo's decision to run for mayor under a PLC-VCE alliance banner, left many in the Liberal rank-and-file feeling angry, betrayed and confused. Polling shows that many Liberals still believe a vote for the ALN is a vote for Eduardo. The shortened electoral calendar forced parties to set up party machinery and identify candidates more rapidly than in past years. As a result, candidate selection was rushed, with many choices made based more on personal connections than on electoral viability. The presence of "the Pacto," the de-facto power-sharing alliance between Ortega and former President Aleman, was felt as well, perhaps most strongly in Matagalpa. In February nine opposition parties, including the ALN, MRS and a PLC that had rejected Aleman, banded together to select consensus candidates. A unity slate was announced, but only days later cast aside when Aleman insisted on picking the mayoral candidate for Matagalpa under the new PLC-VCE alliance. The nine-party unity evaporated with each party now putting forward its own individual slate.

¶12. (C) The Liberal unity of the PLC-VCE alliance is tenuous. We see parallel, rather than complementary structures for policy formulation, strategy, voter outreach,

fundraising, etc. Guidance and funding from National-level leadership is almost non-existent, with many candidates unclear how to proceed. We often come away bemused from meetings with rural mayoral candidates who appear oblivious of the need to develop platforms and campaigns. Many such candidates, several of whom could be described as

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"charisma-challenged," seem to believe that simply being non-FSLN will be enough to get them elected. The perennial problem of funding persists. Several times a week we are approached by local candidates for campaign financing, voter registration support and the like. Even with the environmental advantages enjoyed by opposition candidates and parties, training and clear direction by opposition parties will be essential to seriously challenge Ortega's well-organized, highly-disciplined, and apparently Venezuelan-financed FSLN/CPC election machine.

What About the Atlantic Coast?

13. (C) On April 4 the Supreme Electoral Council (CSE) voted to delay elections in three communities on the Atlantic Coast for six months. The CSE, whose magistrates owe their loyalty to President Daniel Ortega and Aleman, ignored widespread support from hurricane-affected communities in the RAAN to proceed with elections as scheduled. In the weeks leading up to) and since) the CSE decision, tensions between pro- and anti-election supporters have run high, causing violence and bloodshed on at least one occasion. Liberal leaders in surrounding municipalities are convinced the government will use the delay to manipulate voter registries by moving pro-FSLN voters from the affected coastal municipalities to Liberal-dominated interior municipalities thus tipping the vote towards FSLN candidates.

14. (C) On April 24, the National Assembly -- on its second try -- issued a non-binding resolution overturning the CSE's decision. On April 25, the Assembly's Justice Commission voted out two decrees, one formalizing the Assembly's decision of the day before, and the second calling for an authentic interpretation of electoral law to prevent the CSE from exercising such authority in the future. Both decrees will face serious challenges as the FSLN will use its control of the Supreme Court and CSE to nullify these measures. As the legal struggle plays out in the legislative, judicial, and electoral branches of government, pro- and anti-vote supporters in the RAAN are preparing for a possible struggle of their own, including the use of violence, even armed tactics.

Un-unified Civil Society Concerned By Diminishing Democratic Space

15. (C) Across the political spectrum Nicaraguan civil society actors are concerned about the anti-democratic tendencies of the Ortega Administration and see an increasingly hostile environment for organizations seeking to operate freely and independently. Since Ortega assumed office in January 2007, many NGOs, particularly those openly critical of the government, have experienced various forms of harassment, interference, intimidation, financial pressure, and threats both from the government and FSLN loyalists. Although some actions appear to be innocuous on their surface, e.g. unannounced audits by tax authorities and related financial penalties, the overall cumulative effect appears to be part of a slow, deliberate effort by the government to discourage and undermine the independence, credibility, and operations of these groups and their advocacy of citizen rights and freedom. NGOs, including the traditionally left-leaning Office of the Civil Coordinator, often have been targeted based on an arbitrary application of the law or trumped up charges. Others, such as the center-right Permanent Commission for Human Rights (CPDH),

have received death threats against members of their staffs and families. Most civil society groups regard the establishment of the Citizen Power Councils (CPCs) under the central control of the FSLN's executive branch as a direct attempt to sideline and ultimately supplant the work of civil society.

¶16. (C) These organizations, which represent diverse elements of Nicaraguan society, share a common conviction that civil society is the only viable sector that can keep Nicaragua on a democratic path and stop Ortega's authoritarian aspirations. Unfortunately, they lack clear direction on how to reach their destination and have missed many opportunities to really make their mark. Although they mounted a successful protest against the CPCs in September, they were unable to produce a ripple effect that inspired a wider pro-democratic movement. Initially galvanized to come together to oppose the government's encroachment on citizen rights and freedoms, civil society has not yet demonstrated a capacity or commitment to building any sort of unified alliance or response to the challenges facing the country. Some organizations, led by the Movimiento por Nicaragua (MpN), have pledged to unite as a coalition, but to little avail. Most NGOs suffer from a shortage of resources and lack of a long-term vision to work proactively on concrete, sustainable projects. Internal divisions, egos, leadership rivalries, and competition for donor resources and international cooperation also present impediments to building a long-term civic alliance. Despite the weaknesses of Nicaraguan civil society organizations, however, they remain one of the strongest forces working in defense of the country's democratic spaces. Support from the international community will be crucial if they are to make an impact, given the pressures they face. On our part, we have begun a USD 1 million small grants program for our democratic civil society friends.

Shut Them Up: Independent Media Being Squeezed Too

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¶17. (SBU) In the first few months of 2008, there has been a marked decline in press freedom in Nicaragua. Recent threats to press include the politicized use of the judicial system to convict a prominent local newspaper owner and editor of libel, and the mounting of a dubious public radio and TV campaign against the same media owner and an opposition leader, Montealegre, for alleged public theft. Journalists continue to report that only "official Sandinista" media outlets, often those owned and operated by children of the President and First Lady, have access to government information. The Ministry of Health has selectively banned a reporter from its premises for reporting that was not in its favor. In a space of two weeks in April, four national radio stations (3 independent and 1 Sandinista) reported serious equipment theft at their transmission towers which knocked them off the air for 8-12 hours each. To date, there are no convictions for any of these crimes. A few months ago, private, apparently partisan security forces surrounding the president handcuffed a local reporter when he tried to approach the Ambassador to tape public comments at an outdoor event.

Comment

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¶18. (S/NF) Our bilateral interests and commitment to the Nicaraguan people remain unchanged. Our goals are to keep Nicaragua on the democratic path; to combat corruption,

terrorism and all forms of trafficking; to promote private sector-led development and to protect the interests of U.S.

citizens residing in Nicaragua. Though our interests remain unchanged, Ortega has made it increasingly difficult for us to work towards these goals, by restricting our access and pressuring our partners. He has scrupulously avoided either an outright rejection of U.S. assistance or a direct policy confrontation with Washington. However, he has worked assiduously to undermine any domestic opposition, and thus our ability to find partners capable of imposing pressure for meaningful change. The Ortega-Aleman political pact remains active, and the single greatest, though not the only, obstacle to a more open, transparent Nicaragua. Ortega has mis-managed the economy and has repeatedly permitted, if not instigated, government intervention in the energy and finance sectors for clearly political ends. Ortega continues to close the space in which independent voices of civil society and media can educate and defend the rights of Nicaraguans. Though he has not publicly abandoned his post-election commitments to keep the country on a democratic path and maintain responsible free market policies, there are multiple signs that Ortega seeks only one goal) consolidation of power to perpetuate his rule.

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